STOCK AND COMMODITY CROSSROADS

 June 12, 2012

"I'm going down this road feeling bad, Lord, Lord
And I ain't gonna be treated this way." (Traditional song)

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CONCLUSION

In diverse ways, many financial marketplace pilgrims monitor the equity realm and the commodities universe "together". In recent years, significant price trends in commodities "in general" (use the broad Goldman Sachs Commodity Index as a signpost) roughly have paralleled those of the S+P 500. Noteworthy bull voyages in the GSCI have commenced at "around" the same time as those in the S+P 500. The same perspective appears for bear trips. Intersections between equity benchmarks and commodities contribute to the ongoing worldwide economic crisis story.

Some narrower stock sector indices such as the XOI, OSX, CRX, XNG, and XLE stand at a crossroads between commodities related to them and to wider equity indicators like the S+P 500. Thus many narrow equity domains intersect with (have links to) the so-called overall United States (and global) economy as well as to the important commodities related to that given sector. Thus an equity index composed of corporations involved in the petroleum industry reflects to some extent price levels and trends in "underlying" (related) oil prices. Thus some narrow United States stock sector indices at times can offer useful perspectives on (confirm, reflect) past, current, and future paths for wider stock indices such as the S+P 500 and the broad GSCI.

Of course not all narrow stock indices mirror trends in "equities in general" or key commodity weathervanes as closely as others. Also, patterns in a narrow stock index are not always paralleled closely by those in a commodity directly related to it. A natural gas equity sector index, for example, can rise for a while even though NYMEX natural gas prices are falling or at relatively low levels.

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Scan the attached chart analysis. The broad GSCI chart displays price and time links between commodities and the S+P 500 from mid-2008 (and the acceleration of the worldwide economic disaster) through the recovery and up to the present. See several important equity sector indices, the XOI, OSX, XNG, and CRX, in this context. These four narrow equity indicators contain different members. Their price and time routes are not exact duplicates. Yet significantly, especially when interpreted together, the patterns of the XOI and its friends resemble that of the S+P 500 and the broad GSCI.

The downtrend in the XOI, OSX, XNG, and CRX began around first half 2011, about the same time as the major high in the broad GSCI at 762 (4/11/11 and 5/2/11) and the initial high in the S+P 500 (5/2/11 at 1371). Note the further declines in these sectors since late February 2012 alongside the broad GSCI's second key peak on 3/1/12 at 717 and the S+P 500's 4/2/12 pinnacle at 1422. Beginning on 5/1/12, note the across-the-board retreat in the four narrow sectors, the broad GSCI (from 689), and the S+P 500 (from 1415). The XOI, OSX, XNG, and CRX movements thus confirm those of commodities in general and the S+P 500. These bear trends probably are not finished.

This viewpoint does more than underline that the international economic crisis that walked onstage in 2007 remains far from solved. Take a look at the price level from the start of May

2012 to now in these stock and commodity charts alongside their prices during mid to late summer 2008. The 5/1/12 and thereafter levels are around ranges from which prices collapsed as the economic disaster worsened in late 2008. The world of course is not exactly the same now as then. Many observers contend that central bankers, finance ministers, and politicians have gained experience as the global economic crisis has unfolded.

Nevertheless, though stock and commodity marketplaces in 2012 or thereafter may not repeat the accelerated descent of late 2008, that period of four years ago should not be forgotten. Keep the attached chart of the S+P 500 from the sunset of the blissful Goldilocks Era in 2007 to the marketplace bottom on 3/6/09 at 667 in mind.

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In this stock and commodity context, the S+P 500 is not the only broad equity benchmark worthy of review. Briefly focus on China. The Shanghai Composite made its major low on 10/28/08 at 1665. The Equity sector indices made key bottoms around that time. The XOI bottom was 10/10/08 at about 745, the OSX's at 97.2 on 12/5/08. The CRX's was about 361 on 11/20/08. The initial low in the XNG was at 301 on 10/10/08. These sectors established final lows in early March 2009, at around the time of the S+P 500's major bottom. China's stock marketplace reached its final low 3/3/09 at 2037. Guides underline the importance of China for trends and levels in many commodities. The broad GSCI made its major trough around the time of the lows in the Chinese stock benchmark, on 2/19/09 at 306.

Also, keep in mind that although the S+P 500 achieved a new peak in 2012 in its bull move since March 2009, various other key world stock marketplaces did not. Their 2012 interim highs were beneath those reached in 2011 (and in some cases, those in prior years of the worldwide recovery that began in 2009). Thus the downtrend in commodities in general (broad GSCI) that commenced in April/May 2011 finds an international parallel, not merely by the initial 2011 highs in the S+P 500. Note the Shanghai Composite's highs of 4/18/11 at 3067 and 2827 on 7/18/11 relative to 2/27/12's 2478 (and 2011 heights also are the August 2009 plateau and the 2010 top). What about Japan? The Nikkei on its 2/17/11 elevation was about 10890; compare 3/27/12's 10255. The Nikkei rests under its 2010 summit as well. How about Europe? See the Stoxx Europe indicator (600 stocks, SXXP on Bloomberg). Its 3/16/12 top around 273 sits beneath its 2/18/11 summit at 292 as well as 5/2/11's secondary one at 285 (recall the S+P 500's 2011 top on 5/2). The 2012 top in the Stoxx is almost exactly the same level as its 4/15/10 high.

In any event, equities in general made important highs in 2011 and 2012 around the same time as the noteworthy ones in the broad Goldman Sachs Commodity Index.

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Including detail on currency and interest rates (including credit spreads) obviously would offer further insight on these equity and commodity relationships.

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